



We take tomorrow's technology  
to today's companies

We do this by developing,  
harnessing and communicating  
technology in markets where  
we have a distinctive lead

# Financial highlights

FOR THE HALF-YEAR ENDED 30 SEPTEMBER 2001	£m
TURNOVER	173.7
OPERATING LOSS <sup>(i)</sup>	(6.0)
PROFIT BEFORE TAXATION	44.0
EBITDA <sup>(ii)</sup>	(1.2)
FREE CASH FLOW	(16.4)
EARNINGS PER SHARE	55.9p
ADJUSTED EARNINGS PER SHARE <sup>(iii)</sup>	(5.1)p
INTERIM DIVIDEND PER SHARE	3.8p

- (i) Operating loss is stated before exceptional operating charges of £11.4 million.
- (ii) EBITDA is earnings before interest, tax, depreciation, amortisation, exceptional operating charges and profit on sale of businesses.
- (iii) Adjusted earnings per share is stated before amortisation of goodwill of £0.9 million, exceptional operating charges of £11.4 million and profit on sale of businesses of £63.2 million. See note 7 for details of the adjusted earnings per share calculation.

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## Chairman's statement

*"On track to deliver what has been promised"*

AEA Technology has made considerable progress in the first six months of this financial year. The Group has been restructured, costs have been reduced, the Rail and Environment businesses are generating significant top-line growth. A rigorous programme of management change is underway following an extensive review by the Executive Directors. The disposal programme has also made progress and priority will continue to be given to achieving good value from the remaining planned disposals. The Company remains committed to returning significant funds to shareholders from the proceeds of the disposal programme and the Board is actively considering its plans for the return of capital.

### Laying the foundation

With the strategy firmly in place and being delivered by a strong management team, I have judged that now is the right moment to step down. Having informed the Board of my decision, they have decided to appoint Peter Watson as Chairman. His knowledge of AEA Technology will provide continuity and most importantly, his knowledge and reputation within the rail industry is of direct and significant value to the Group.

AEA Technology has gone through a tremendous period of change since privatisation in 1996. We have gone from being a nuclear to essentially a non-nuclear Business and have grown substantially in the UK private sector and overseas. We have reduced our dependence on the UK Government sector from 46% of turnover in year to March 1996 to 21% in year to March 2001. The shape of the Business has changed with the focus now being on Rail and Environment while looking to nurture a second group of businesses which will have value in the future. We have gone through a rigorous process of change in both people and culture. This process is not complete but we are well on the way. A solid foundation has been laid for what will be a strong Business.

### Outlook

The management expects continuing good performance from our two core businesses of Rail and Environment and continuing good progress in the transformation of the Business.



**Sir Anthony Cleaver**  
Chairman

## Chief Executive's review

*"The core businesses are sharper and generating real growth, the disposal programme has delivered good prices, costs have been reduced and management change has been extensive."*

### ACHIEVEMENTS

#### Growth

The management team is determined to deliver real shareholder return. This will be achieved by concentrating on markets which are growing strongly and where the Group has a distinctive technological lead. In the first six months of this financial year there was performance improvement in our two core businesses, Rail and Environment. Underlying performance for the combined businesses showed turnover up 21.7% and operating profit up 14.5%.

- Rail – turnover rose by 33.0% while operating profit only increased 7.3% due to our strategic investment in NSTO, the leading rail technical resource in Holland, and increased investment in software development.
- Environment – turnover rose by 4.9% and operating profit increased 25.0% as we pursued our policy of focusing on higher margin business.

#### Disposals

- The disposal programme has delivered to date a total value of £102.9 million, of which only £77.3 million for the sale of Nuclear Consulting is included in the figures for the first six months. Of this, £69.8 million has been received as cash, the rest as retained debtors and disposal of creditors. The proceeds for the sale of Nuclear Engineering are not recognised in the half-year accounts as the sale was completed on 1 October 2001.
- The Group has reduced net debt to £18.3 million from £67.8 million at the start of this financial year.

#### Management change

- 25% of the senior management of the Company has been changed to deliver improved performance. This change has involved managing directors, other business heads and senior people in the Corporate Centre. However, more remains to be done. This programme will improve the entrepreneurial and commercial talent in the Group.

#### Corporate Centre

- The ongoing cost of the Corporate Centre has been reduced by approximately half. This will produce annual savings of approximately £7 million.
- The reduction of some 75 people was achieved through voluntary means.

### FINANCIAL SUMMARY

This is a period of transition for the Group, which is apparent in our financial results. Overall turnover for the first half was £173.7 million but on a continuing basis sales were £136.6 million. The profit before tax figure of £44.0 million (2000: £1.2 million) reflects the exceptional profit on the sale of businesses, principally Nuclear Consulting. On a pre-exceptional basis, the Group recorded a loss before tax of £7.8 million (2000: £5.5 million profit before tax) as the three businesses – Accentus plc, Battery Systems and QSA – in our value-development portfolio continued to require significant

investment. The proceeds for the sale of Nuclear Engineering have been received but are not included in this half's figures. We also took exceptional operating charges of £11.4 million (2000: £4.3 million) to restructure and focus the business. We anticipate a further exceptional operating charge in the second half of this financial year of up to £10 million in order to complete the restructuring of our businesses.

*"Strong positions in good growth markets justify the strategy"*

## TRADING REVIEW

### Rail

AEA Technology's Rail business is the leading supplier of advanced technology to the UK rail industry. It has a strong market reputation and brand, a number of industry leading products and the business contains many internationally recognised technical experts.

Investment in railway infrastructure in the UK is growing by 30% per annum while investment in rolling stock rose by 34% to an all-time post-privatisation high of £2.6 billion in 2001. Both of these two market sectors are heavily dependent upon advanced technology, particularly in the fields of signalling, track safety and maintenance, revenue management and discreet technologies which deliver safety and reliability and cost performance improvement. The accessible market for these technologies is worth in excess of £300 million per annum.

Growth is expected to continue in the UK although the Railtrack situation may extend some of the infrastructure investment programmes. In addition, NSTO (one of the Continent's most respected railway technical resources businesses) is beginning to deliver benefits as the group is able to offer new products into the Continental market through its strong brand reputation.

In the first half of the financial year, Rail delivered a strong performance with turnover up 33.0%, slightly outperforming market growth. Operating profit rose by only 7.3% because of the strategic investment in NSTO, allowing us to access the Continental railway markets which we believe offer strong medium-term growth prospects and increased investment in software development.



Rail's latest signalling control system at York.





Measuring particulate pollution in the atmosphere.



## Environment

AEA Technology's Environment business is the leading supplier of environmental know-how to the UK Government. The business has a strong international brand reputation particularly in the fields of energy efficiency, climate change and government policy and framework consultancy. In these sectors, the group contains many internationally respected experts, particularly in the fields of data modelling, air quality monitoring and emergency response and planning.

The UK market for environmental services is estimated to be worth £1 billion and last year grew 15%. UK Government and private sector investment in the environment continues to be driven by legislation emanating from the EU, resulting in a strong demand for high quality advice. In addition, implementation expertise, particularly in the fields of data management and monitoring, continues to remain strong.

The environment market remains immature with many fragmented, specialist players. AEA Technology's Environment business will continue to focus on customers and market sectors which are prepared to pay a premium price to access the expertise in the business. Against this background the Environment business delivered a turnover up 4.9% and operating profit up 25.0%, reflecting our focus on higher margin business.

## DEVELOPING VALUE

AEA Technology has three businesses in the value-development portfolio. The aim is to nurture these businesses through a two to three year investment and development programme which will increase value significantly. In this timeframe, the Group will decide on the best method to capture this developed value.

### Future Technologies – Accentus plc

Accentus plc commenced trading on 1 April 2001. It is AEA Technology's intellectual property business.

- A portfolio of 1,000 patents and applications with more in the pipeline.
- Turnover in the half-year growing from £10.2 million to £11.8 million. Further improvement in sales will be delivered through growth of licensing income.
- Seven core technologies which include the safe destruction of chemical weapons and polychlorinated biphenyls (PCBs) to the use of advanced plasmas for the destruction of diesel particulates and oxides of nitrogen.
- Aim is to float, demerge or sell this business in 2003.



Our commitment to quality has delivered the most advanced product.

### Future Technologies – Battery Systems

The Battery Systems business has made considerable progress in the first six months of this financial year but is still in the development phase and is loss making. The business has been set up to design and manufacture cells and battery packs for specialist markets including military, medical and portable power applications. The business focuses on those customers and markets which are prepared to pay a higher premium for advanced performance and reliability as well as special power characteristics.

- The business has a brand new integrated manufacturing facility in Scotland.
- It is delivering the most advanced products available anywhere in the world in terms of the number of times they can be recharged while holding their original performance (cycle life).
- These products also have world beating temperature performance capabilities for instance they work effectively in the most extreme environmental conditions ranging from -51 degrees Centigrade to +75 degrees Centigrade.
- The business continues to enjoy access through AGM Batteries Limited, a company held jointly with Mitsubishi Materials Corporation and Japan Storage Company (Japan's oldest battery manufacturing company) to the very latest materials technology and Japanese manufacturing capability which gives the product a quality edge.

### Nuclear Technology – QSA

QSA is an international, market-leading supplier of high quality radioactive-based products and services for medical, defence, security, safety, environmental and industrial applications in areas such as smoke detection, process control and non-destructive testing.

- We are redefining and focusing on our core business of supplying high quality radioactive-based products and services in areas such as smoke detection, process control and non-destructive testing.
- Rationalisation of cost base well advanced.
- Developing a medical therapies business.
- Increased sales from new product developments.
- Successes in low cost manufacture e.g. packaged smoke detectors from China.

## DISPOSALS

### Nuclear Technology

The management has been focused on delivering the disposal programme without diluting shareholder value. This objective has been achieved because substantial proceeds were obtained for both the Nuclear Consulting and Nuclear Engineering businesses. These sales mark a significant step forward for the Group because they were achieved on time after a most extensive regulatory review. They also mark the first stage in what is a two-stage journey to exit from nuclear markets, the final completion of which will be the sale of Nuclear Science which we aim to complete in 2002.

### Engineering Software

The sale of Hyprotech is underway again. We were disappointed that, having agreed terms, the previous sale process was curtailed by uncertainty in the American markets following September 11. The Board has also announced its intention to divest its computational fluid dynamics business, CFX, and expects to sell this business during the course of 2002.

Turnover was up 13.9% to £23.8 million. However, an operating loss of £0.4 million was recorded compared with a profit of £0.6 million last year. This reflects increased pricing pressures in the US.

### Value Realisation Group

The disposals programme will continue throughout 2002. Minor divestments as detailed in note 11 have already been concluded.

## MANAGEMENT CHANGE

A significant programme of management review and change has continued in the first six months of this financial year. The intention has been to improve performance in the businesses by bringing in greater commercial acumen from outside while also encouraging the development and promotion of talent within the Group.

Key appointments commenced in January 2001 with the arrival of a new Chief Operating Officer. This has been followed by the appointment of a new Group Finance Director, new managing directors and business board members, particularly in the businesses where we are seeking to nurture and develop value. In the Corporate Centre, a number of senior posts have been removed.

## COST REDUCTION

Since March 2001 the size of the Corporate Centre has been reduced by approximately half with some 75 people going through voluntary means.

The role of the Corporate Centre has changed to concentrate on those functions that are required for statutory reasons and to undertake key skills and services particularly in the fields of mergers, acquisitions, treasury and investor relations which can be best and most cost effectively done in one place.

The reduction in the Corporate Centre will produce annual savings of approximately £7 million. The next stage is to reduce costs in the businesses.



**Dr Peter Watson**  
Chief Executive

## FINANCIAL PERFORMANCE AND CASH FLOW

Profit before tax increased to £44.0 million, reflecting the exceptional profit on sale of businesses during the half-year. The largest divestment, Nuclear Consulting, generated profit on disposal of £63.3 million (see note 11). A number of other minor divestments were also completed during the half-year.

Further significant actions have been taken during the half-year to focus the business. As a result exceptional operating charges of £11.4 million (2000: £4.3 million) have been incurred as follows:

- £5.0 million for redundancies relating to the decision to exit from the Harwell B220 facilities.
- £4.4 million (2000: £1.9 million) has been incurred on redundancy costs in the Corporate Centre as parts of the Group are divested.
- £2.0 million (2000: £2.4 million) has been incurred on costs during the Offer Period, work in progress write-downs, asset write-downs and impairments, and other costs associated with the closure of a number of business streams.

The Group has changed its policy on the recognition of income on software licenses as described in note 1. Under the new policy the full contract value is spread over the period of the contract. The reduction in prior year earnings is included within the £25.8 million prior year adjustment shown in the Statement of Total Recognised Gains and Losses.

Group turnover for continuing activities, increased by £11.1 million, an increase of 8.8%, due mainly to growth in the Rail and Environment businesses.

The Group operating loss of £17.4 million is analysed below.

	Operating profit/(loss) pre-exceptional operating charges £m	Exceptional operating charges £m	Operating profit/(loss) post exceptional operating charges £m
Rail	4.4	-	4.4
Environment	3.5	-	3.5
<b>Core business</b>	<b>7.9</b>	<b>-</b>	<b>7.9</b>
Accentus plc	(1.1)	-	(1.1)
Battery Systems	(2.8)	-	(2.8)
QSA	(1.3)	-	(1.3)
<b>Value development</b>	<b>(5.2)</b>	<b>-</b>	<b>(5.2)</b>
Nuclear Science	(2.0)	(5.7)	(7.7)
Engineering Software	(0.4)	-	(0.4)
Value Realisation Group – divestments in progress	(1.4)	(0.3)	(1.7)
<b>Disposal programme</b>	<b>(3.8)</b>	<b>(6.0)</b>	<b>(9.8)</b>
Nuclear Consulting	2.9	-	2.9
Nuclear Engineering	(0.4)	-	(0.4)
Value Realisation Group – divestments concluded	(0.4)	(0.6)	(1.0)
<b>Divested businesses</b>	<b>2.1</b>	<b>(0.6)</b>	<b>1.5</b>
<b>Central items</b>	<b>(7.0)</b>	<b>(4.8)</b>	<b>(11.8)</b>
<b>Total</b>	<b>(6.0)</b>	<b>(11.4)</b>	<b>(17.4)</b>

The loss principally arises as Accentus plc, Battery Systems and QSA are in a development phase and are incurring losses. The Board is confident that the continuing investment in these businesses is worthwhile and will add value. Research and development increased by £1.2 million to £7.7 million (2000: £6.5 million).

Net interest charges decreased from £2.9 million to £1.8 million reflecting the improved average net debt position and better interest rates.

The overall tax credit on the profit before tax was £5.4 million (2000: charge of £1.9 million). A deferred tax asset of £10.0 million (2000: £2.9 million liability) has been recognised as a result of implementing the full deferral method required by FRS 19: Deferred Tax.

The earnings per share rose from (0.6)p to 55.9p. The earnings per share adjusted for exceptional operating charges, profit on sale of businesses and amortisation of goodwill fell from 4.2p to (5.1)p.

The operating loss has led to a reduction in operating cash flow. There were however improvements in work in progress days which have reduced to 28 days (2000: 40 days) and debtor days which have reduced to 70 days (2000: 82 days). Working capital will continue to be a key management focus during the second half-year.

Net debt has reduced to £18.3 million (2000: £77.5 million). Group interest on a post exceptional basis was covered 6.8 times (2000: 4.6 times). The Group finances its operations through a combination of retained profits, a revolving credit facility and a seven year private placement facility.



**David Lindsay**  
Group Finance Director

## Introduction

We have been instructed by the Company to review the financial information which comprises the Consolidated Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes to the Interim report. We have read the other information contained in the Interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

## Directors' responsibilities

The Interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2001.



**PricewaterhouseCoopers**

Chartered Accountants

London

12 December 2001

### Notes:

(a) The maintenance and integrity of the AEA Technology plc website is the responsibility of the Directors; the work carried out by the accountants does not involve consideration of these matters and, accordingly, the accountants accept no responsibility for any changes that may have occurred to the Interim report since it was initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

## Consolidated profit and loss account (unaudited)

	Notes	Continuing Operations Half-year 2001 £m	Discontinued Operations Half-year 2001 £m	Total Half-year 2001 £m	Continuing Operations Half-year 2000 restated £m	Discontinued Operations Half-year 2000 restated £m	Total Half-year 2000 restated £m	Continuing Operations Year ended 31 March 2001 restated (audited) £m	Discontinued Operations Year ended 31 March 2001 restated (audited) £m	Total Year ended 31 March 2001 restated (audited) £m
<b>FOR THE HALF-YEAR ENDED 30 SEPTEMBER</b>										
<b>Turnover</b>										
Group and share of joint ventures	2,3	136.6	37.1	173.7	125.5	47.8	173.3	267.8	101.0	368.8
Less: Share of joint ventures		(0.2)	(1.1)	(1.3)	(0.2)	(0.2)	(0.4)	(2.5)	(2.1)	(4.6)
		136.4	36.0	172.4	125.3	47.6	172.9	265.3	98.9	364.2
<b>Operating costs</b>										
Operating costs		(144.5)	(33.9)	(178.4)	(124.0)	(40.4)	(164.4)	(266.9)	(85.4)	(352.3)
Exceptional operating charges	4	(10.8)	(0.6)	(11.4)	(4.3)	–	(4.3)	(24.0)	–	(24.0)
		(155.3)	(34.5)	(189.8)	(128.3)	(40.4)	(168.7)	(290.9)	(85.4)	(376.3)
<b>Group operating (loss)/profit</b>		<b>(18.9)</b>	<b>1.5</b>	<b>(17.4)</b>	<b>(3.0)</b>	<b>7.2</b>	<b>4.2</b>	<b>(25.6)</b>	<b>13.5</b>	<b>(12.1)</b>
Share of operating (loss)/profit in joint ventures		–	–	–	–	(0.1)	(0.1)	–	0.1	0.1
<b>Total operating (loss)/profit: Group and share of joint ventures</b>	2,3	<b>(18.9)</b>	<b>1.5</b>	<b>(17.4)</b>	<b>(3.0)</b>	<b>7.1</b>	<b>4.1</b>	<b>(25.6)</b>	<b>13.6</b>	<b>(12.0)</b>
Profit on sale of businesses	11	–	63.2	63.2	–	–	–	–	–	–
Income from other fixed asset investments		–	–	–	–	–	–	0.3	–	0.3
<b>(Loss)/profit on ordinary activities before interest and taxation</b>		<b>(18.9)</b>	<b>64.7</b>	<b>45.8</b>	<b>(3.0)</b>	<b>7.1</b>	<b>4.1</b>	<b>(25.3)</b>	<b>13.6</b>	<b>(11.7)</b>
Net interest payable				(1.8)			(2.9)			(5.5)
<b>Profit/(loss) on ordinary activities before taxation</b>				<b>44.0</b>			<b>1.2</b>			<b>(17.2)</b>
Tax on ordinary activities	5			5.4			(1.9)			5.4
<b>Profit/(loss) on ordinary activities after taxation</b>				<b>49.4</b>			<b>(0.7)</b>			<b>(11.8)</b>
Minority interests – Equity				0.1			0.2			0.4
<b>Profit/(loss) for the financial period</b>				<b>49.5</b>			<b>(0.5)</b>			<b>(11.4)</b>
Dividends	6			(3.4)			(3.4)			(9.9)
<b>Retained profit/(loss) for the financial period</b>				<b>46.1</b>			<b>(3.9)</b>			<b>(21.3)</b>
Earnings per share (pence)	7			<b>55.9p</b>			(0.6)p			(12.9)p
Adjusted earnings per share (pence)	7			<b>(5.1)p</b>			4.2p			10.6p
IIMR earnings per share (pence)	7			<b>(14.0)p</b>			0.1p			(5.2)p
Diluted earnings per share (pence)	7			<b>55.6p</b>			(0.6)p			(12.9)p

There is no material difference between the profit/(loss) on ordinary activities before taxation and the retained profit/(loss) for the period stated above, and their historical cost equivalents.

The Group's operating (loss)/profit includes £0.9 million amortisation of goodwill (£0.8 million for the half-year to 30 September 2000 and £1.6 million for the year ended 31 March 2001).

## Statement of total recognised gains and losses (unaudited)

	Notes	Half-year 2001 £m	Half-year 2000 restated £m	Year ended 31 March 2001 restated (audited) £m
<b>FOR THE HALF-YEAR ENDED 30 SEPTEMBER</b>				
Profit/(loss) for the financial period		49.5	(0.5)	(11.4)
Currency translation differences on foreign currency net investments		0.3	(1.4)	(2.5)
<b>Total recognised gains and losses for the period</b>		<b>49.8</b>	<b>(1.9)</b>	<b>(13.9)</b>
Prior year adjustment	1	(25.8)	-	-
<b>Total gains and losses recognised since 1 April</b>		<b>24.0</b>	<b>(1.9)</b>	<b>(13.9)</b>

## Consolidated balance sheet (unaudited)

AS AT 30 SEPTEMBER	Notes	Half-year 2001 £m	Half-year 2000 restated £m	Year ended 31 March 2001 restated (audited) £m
<b>Fixed assets</b>		<b>67.8</b>	77.9	68.4
<b>Current assets</b>				
Stocks and work in progress		24.8	26.7	21.1
Debtors falling due after more than one year		13.3	8.9	10.2
Debtors falling due within one year		127.1	120.9	123.4
Cash at bank and in hand		36.6	10.9	27.2
		<b>201.8</b>	167.4	181.9
<b>Creditors: amounts falling due within one year</b>		<b>(116.9)</b>	(103.1)	(151.8)
<b>Net current assets</b>		<b>84.9</b>	64.3	30.1
<b>Total assets less current liabilities</b>		<b>152.7</b>	142.2	98.5
<b>Creditors: amounts falling due after more than one year</b>				
Borrowings		(46.5)	(81.5)	(46.7)
Other creditors		(3.0)	(1.4)	(1.4)
<b>Provisions for liabilities and charges</b>		<b>(36.0)</b>	(19.6)	(29.8)
<b>Net assets</b>		<b>67.2</b>	39.7	20.6
<b>Capital and reserves</b>				
Called up share capital		8.9	8.9	8.9
Share premium		8.4	8.1	8.4
Profit and loss account		49.6	22.0	3.0
<b>Equity shareholders' funds</b>	8	<b>66.9</b>	39.0	20.3
Minority interests – Equity		0.3	0.7	0.3
		<b>67.2</b>	39.7	20.6

The Interim report was approved by the Board on 12 December 2001.

## Consolidated cash flow statement (unaudited)

FOR THE HALF-YEAR ENDED 30 SEPTEMBER	Notes	Half-year 2001 £m	Half-year 2000 restated £m	Year ended 31 March 2001 restated (audited) £m
<b>Cash flow from operating activities</b>				
Operating (loss)/profit		(17.4)	4.2	(12.1)
Amortisation of intangible fixed assets		1.0	0.8	1.7
Depreciation of tangible fixed assets		3.4	4.0	8.1
Impairment of tangible fixed assets		0.4	–	6.1
Loss on sale of tangible fixed assets		–	–	0.2
Profit on sale of subsidiaries/businesses		–	(0.2)	(1.1)
(Increase)/decrease in stocks and work in progress		(5.7)	(2.1)	3.0
Decrease in debtors		4.6	5.7	5.9
(Decrease)/increase in creditors		(2.8)	(6.9)	8.9
Increase in provisions relating to operating activities		6.4	1.9	14.8
Reversal of amounts accrued under the Long-Term Incentive Plan		–	–	(0.3)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(10.1)</b>	7.4	35.2
Returns on investments and servicing of finance		(2.3)	(1.9)	(4.0)
Taxation		(0.6)	(3.0)	(8.1)
Capital expenditure and financial investment		(3.4)	(3.2)	(6.4)
<b>Free cash (outflow)/inflow</b>		<b>(16.4)</b>	(0.7)	16.7
Disposals and acquisitions		66.7	(3.7)	(1.0)
Equity dividends paid		–	–	(9.8)
<b>Cash inflow/(outflow) before financing</b>		<b>50.3</b>	(4.4)	5.9
Financing		(40.5)	3.4	9.6
<b>Increase/(decrease) in cash</b>	9	<b>9.8</b>	(1.0)	15.5

The total cash outflow from operating activities includes an outflow of £2.3 million in respect of current half-year exceptional items and £2.5 million in respect of 2001 exceptional items. The current half-year exceptional items outflow comprises £1.1 million of redundancy costs, £0.9 million of Offer Period costs and £0.3 million of closure costs. Of the total exceptional operating charges £0.6 million have no cash impact. The remaining cash flows of £8.5 million will be incurred over the next one to four years.

### 1 Basis of preparation and prior year adjustments

The Interim report has been prepared using accounting policies consistent with the Annual report and accounts for the year ended 31 March 2001 other than changes necessary to implement the following accounting standards which will become mandatory for the current year's Annual report and accounts:

FRS 18: Accounting Policies, and

FRS 19: Deferred Tax.

Following the implementation of FRS 18: Accounting Policies, all of the Group's accounting policies have been reviewed for appropriateness. As a result of this review our policy on the recognition of income on software licenses has been revised. In previous years the full contract value was recognised on signing a binding contract and a provision made for future maintenance and support costs. Under the new policy the full contract value is spread over the period of the contract. This change in accounting policy increased turnover to September 2000 by £1.4 million and operating profit by £2.6 million and to 31 March 2001 turnover was reduced by £9.9 million and operating profit by £7.8 million. In the current half-year the change in policy has resulted in a decrease in turnover of £1.4 million and a decrease in operating profit of £0.7 million.

The implementation of FRS 19: Deferred Tax requires a full rather than partial provision for deferred tax. This has resulted in a deferred tax asset of £10.0 million being recognised at 30 September 2001 (£2.9 million liability at 30 September 2000 and £0.1 million asset at 31 March 2001). The restatement of the prior year figures to reflect this change in accounting policy caused an increase in the tax charge of £0.2 million to 30 September 2000 and an increase in the tax credit of £1.8 million to 31 March 2001.

As reflected in the Annual report and accounts for the year ended 31 March 2001, a further prior year adjustment was made to the results to 30 September 2000. Since the announcement of the half-year results to 30 September 2000, the Board of Hunting BRAE Limited, in which AEA Technology holds an 18% investment, changed its intended dividend policy. £4.1 million non-recurring investment income included at 30 September 2000 was removed. Instead the cash received of £4.5 million was included in net debt.

The interim results are unaudited but have been reviewed by the auditors. Their report is set out on page 9. The full year figures are extracted from the Annual report and accounts for the year ended 31 March 2001 (as restated above) on which the auditors gave an unqualified opinion. A copy of the Accounts has been filed with the Registrar of Companies.

The Interim report does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

## 2 Geographical analysis

Turnover can be analysed by geographical destination as follows:

	Half-year 2001 £m	Half-year 2000 restated £m	Year ended 31 March 2001 restated £m
Government	31.4	36.7	77.1
Public sector	8.1	12.8	28.3
Private sector	64.3	61.8	131.1
<b>UK</b>	<b>103.8</b>	<b>111.3</b>	<b>236.5</b>
Europe	21.3	20.0	45.6
North America	31.5	25.1	54.0
Rest of the World	17.1	16.9	32.7
	<b>173.7</b>	<b>173.3</b>	<b>368.8</b>

Turnover can be analysed by geographical origin as follows:

	Half-year 2001 £m	Half-year 2000 restated £m	Year ended 31 March 2001 restated £m
UK	130.8	143.8	295.5
Europe	10.0	6.5	16.6
North America	31.1	21.7	52.0
Rest of the World	1.8	1.3	4.7
	<b>173.7</b>	<b>173.3</b>	<b>368.8</b>

Operating (loss)/profit can be analysed by geographical origin as follows:

	Half-year 2001 £m	Half-year 2000 restated £m	Year ended 31 March 2001 restated £m
UK	(19.9)	0.8	(13.5)
Europe	0.4	0.5	0.7
North America	0.6	2.1	(0.2)
Rest of the World	1.5	0.7	1.0
	<b>(17.4)</b>	<b>4.1</b>	<b>(12.0)</b>

Net operating assets/(liabilities) can be analysed by geographical origin as follows:

	Half-year 2001 £m	Half-year 2000 restated £m	Year ended 31 March 2001 restated £m
UK	68.0	106.3	79.1
Europe	1.1	(0.9)	4.9
North America	13.0	11.1	2.6
Rest of the World	3.4	0.7	1.8
	<b>85.5</b>	<b>117.2</b>	<b>88.4</b>

### 3 Segmental analysis of turnover and operating (loss)/profit

	Half-year 2001		Half-year 2000 restated		Year ended 31 March 2001 restated	
	Turnover £m	Operating profit/(loss) £m	Turnover £m	Operating profit/(loss) £m	Turnover £m	Operating profit/(loss) £m
Rail	36.7	4.4	27.6	4.1	64.6	9.4
Environment	19.3	3.5	18.4	2.8	40.7	5.9
Future Technologies	31.3	(6.6)	36.7	(5.8)	67.3	(20.6)
Nuclear Technology	60.1	(6.5)	67.2	5.2	145.0	0.4
Engineering Software	23.8	(0.4)	20.9	0.6	44.5	-
Central items	2.5	(11.8)	2.5	(2.8)	6.7	(7.1)
<b>Total</b>	<b>173.7</b>	<b>(17.4)</b>	<b>173.3</b>	<b>4.1</b>	<b>368.8</b>	<b>(12.0)</b>

The operating profit/(loss) in the table above includes exceptional operating charges (note 4).

Inter-segment sales, which have been eliminated in the analysis above, amounted to £2.7 million for the half-year to 30 September 2001 (£5.1 million for the half-year to 30 September 2000 and £9.6 million for the year ended 31 March 2001).

In previous years corporate overheads were all allocated proportionally to the business segments. As the businesses become more autonomous it is no longer appropriate to allocate all of these costs. Corporate overheads of £2.1 million (£4.8 million for the half-year to 30 September 2000 and £9.0 million for the year ended 31 March 2001) have been allocated based on the businesses' use of operational capital. The segmental analysis has been restated with the remaining unallocated corporate overheads disclosed separately as central items.

In addition, the business segment figures have been restated to reflect the new organisational structure as disclosed in the 2001 Annual report and accounts.

The results of Future Technologies and Nuclear Technology can be further analysed into continuing and discontinued activities as follows:

	Half-year 2001		Half-year 2000 restated		Year ended 31 March 2001 restated	
	Turnover £m	Operating (loss)/profit £m	Turnover £m	Operating (loss)/profit £m	Turnover £m	Operating (loss)/profit £m
Future Technologies:						
Continuing activities	27.5	(5.6)	26.8	(5.4)	50.2	(16.9)
Discontinued activities	3.8	(1.0)	9.9	(0.4)	17.1	(3.7)
<b>Total</b>	<b>31.3</b>	<b>(6.6)</b>	<b>36.7</b>	<b>(5.8)</b>	<b>67.3</b>	<b>(20.6)</b>
Nuclear Technology:						
Continuing activities	26.8	(9.0)	29.3	(2.3)	61.1	(16.9)
Discontinued activities	33.3	2.5	37.9	7.5	83.9	17.3
<b>Total</b>	<b>60.1</b>	<b>(6.5)</b>	<b>67.2</b>	<b>5.2</b>	<b>145.0</b>	<b>0.4</b>

## 4 Exceptional items

Exceptional operating charges comprise:

- (i) £5.0 million for redundancies relating to the decision to exit from the Harwell B220 facilities. This is an estimate based on the current expected number of redundancies over the next three years;
- (ii) £4.4 million (2000: £1.9 million) of redundancy costs incurred as part of a cost reduction and restructuring exercise in the Corporate Centre as disposals of parts of the Group are completed; and
- (iii) £2.0 million (2000: £2.4 million) relating to the Offer Period costs of £0.9 million, work in progress write-downs of £0.3 million, asset write-downs and impairments of £0.3 million, and other costs of £0.5 million associated with the closure of a number of business streams.

These exceptional operating charges can be analysed as follows:

	Redundancy £m	Other £m	Total £m
Future Technologies	0.3	0.6 <sup>(i)</sup>	0.9
Nuclear Technology	5.2	0.5	5.7
Central items	3.9	0.9	4.8
	<b>9.4</b>	<b>2.0</b>	<b>11.4</b>

(i) Included in discontinued operations.

The taxation credit on the exceptional operating charges is £3.1 million.

## 5 Taxation

The taxation credit for the half-year ended 30 September 2001 is based on the Group's estimated effective tax rate of 30% for the year ending 31 March 2002 (30% for the half-year ended 30 September 2000).

The taxation credit in respect of exceptional operating charges is £3.1 million (£0.9 million for the half-year ended 30 September 2000 and £4.8 million for the year ended 31 March 2001). There is no tax payable on the profit on sale of businesses.

## 6 Dividends

An interim dividend of 3.8p (2000: 3.8p) per share will be paid on 1 February 2002 to shareholders registered at the close of business on 4 January 2002.

The final dividend payable in respect of the year ended 31 March 2001 was paid on 1 October 2001.

## 7 Earnings per share

Earnings per share is calculated as follows:

	Half-year 2001	Half-year 2000 restated	Year ended 31 March 2001 restated
Profit/(loss) for the period (£m)	49.5	(0.5)	(11.4)
Weighted average number of ordinary shares for the period (m)	88.6	88.5	88.5
Earnings per share (p)	55.9p	(0.6)p	(12.9)p

### Adjusted earnings per share

Adjusted earnings per share is based on the profit/(loss) for the period before the amortisation of goodwill and before exceptional items.

	Half-year 2001 £m	Half-year 2000 restated £m	Year ended 31 March 2001 restated £m
Profit/(loss) for the financial period	49.5	(0.5)	(11.4)
Amortisation of goodwill	0.9	0.8	1.6
Exceptional operating charges	11.4	4.3	24.0
Exceptional profit on sale of businesses	(63.2)	–	–
Tax on exceptional items	(3.1)	(0.9)	(4.8)
<b>Adjusted (loss)/profit</b>	<b>(4.5)</b>	3.7	9.4

### IIMR earnings per share

The IIMR earnings per share is calculated as follows:

	Half-year 2001 £m	Half-year 2000 restated £m	Year ended 31 March 2001 restated £m
Profit/(loss) for the financial period	49.5	(0.5)	(11.4)
Impairment of tangible fixed assets	0.4	–	6.1
Loss on sale of tangible fixed assets	–	–	0.2
Profit on sale of subsidiaries/businesses	(63.2)	(0.2)	(1.1)
Amortisation of goodwill	0.9	0.8	1.6
<b>IIMR adjusted (loss)/profit</b>	<b>(12.4)</b>	0.1	(4.6)
Weighted average number of ordinary shares for the period (m)	88.6	88.5	88.5
IIMR earnings per share (p)	(14.0)p	0.1p	(5.2)p

### Diluted earnings per share

Diluted earnings per share is calculated as follows:

	Half-year 2001	Half-year 2000 restated	Year ended 31 March 2001 restated
Profit/(loss) for the period (£m)	49.5	(0.5)	(11.4)
Weighted average number of ordinary shares for the period (m)	89.0	89.8	89.3
Diluted earnings per share (p)	55.6p	(0.6)p	(12.9)p

## 8 Reconciliation of movements in equity shareholders' funds

	Half-year 2001 £m	Half-year 2000 restated £m	Year ended 31 March 2001 restated £m
<b>FOR THE HALF-YEAR ENDED 30 SEPTEMBER</b>			
Opening equity shareholders' funds (£46.1 million before deducting prior year adjustment of £25.8 million at 1 April 2001)	20.3	43.7	43.7
Issue of share capital	–	0.4	0.5
Profit/(loss) for the period	49.5	(0.5)	(11.4)
Dividends	(3.4)	(3.4)	(9.9)
Goodwill arising on acquisitions before 1 April 1998	0.2	0.2	0.2
Currency translation differences on foreign currency net investments	0.3	(1.4)	(2.5)
Reversal of amounts accrued under the Long-Term Incentive Plan	–	–	(0.3)
<b>Closing equity shareholders' funds</b>	<b>66.9</b>	<b>39.0</b>	<b>20.3</b>

## 9 Reconciliation of net cash flow to movement in net debt

	Half-year 2001 £m	Half-year 2000 restated £m	Year ended 31 March 2001 restated £m
<b>MOVEMENT IN NET FUNDS/(DEBT) IN THE PERIOD</b>			
Increase/(decrease) in cash in the period	9.8	(1.0)	15.5
Cash outflow/(inflow) from decrease/(increase) in debt	40.5	(3.1)	(9.1)
<b>Change in net funds/(debt) resulting from cash flow</b>	<b>50.3</b>	<b>(4.1)</b>	<b>6.4</b>
Loans acquired on acquisitions	(0.8)	(0.1)	(0.1)
New finance leases	(0.2)	–	–
Exchange on loans	0.2	–	(0.8)
Opening net (debt) at 1 April	(67.8)	(73.3)	(73.3)
<b>Closing net (debt)</b>	<b>(18.3)</b>	<b>(77.5)</b>	<b>(67.8)</b>

	At 1 April 2001 £m	Cash flow £m	Acquisitions £m	Non cash items £m	At 30 Sept 2001 £m
<b>ANALYSIS OF NET FUNDS/(DEBT)</b>					
Cash net of overdraft	25.1	9.8	–	–	34.9
(Debt) due after one year	(46.7)	0.1	–	0.1	(46.5)
(Debt) due within one year	(46.2)	40.4	(0.8)	(0.1)	(6.7)
	(67.8)	50.3	(0.8)	–	(18.3)

## 10 Acquisitions

	Total £m
Consideration including acquisition costs	2.7
Provisional fair value of net assets acquired	–
<b>Provisional goodwill</b>	<b>2.7</b>

On 12 June 2001 the Group acquired the whole of the share capital of SoMat Corporation Inc., a company which designs, develops and manufactures data acquisition box equipment employed by major automotive manufacturers in the testing and development of their products.

## 11 Disposals

	Nuclear Consulting £m	Other £m	Total £m
Sale proceeds net of disposal costs	64.1	0.1	64.2
Net assets disposed of	(0.8)	–	(0.8)
Goodwill written off	–	(0.2)	(0.2)
<b>Profit/(loss) on disposal</b>	<b>63.3</b>	<b>(0.1)</b>	<b>63.2</b>

On 22 May 2001 the Group disposed of the net assets and trade of the Ion Implantation business in Future Technologies. On 2 July 2001 the Group disposed of the whole of the share capital of Bowsprit Contracting Limited in Future Technologies.

On 10 September 2001 the Group disposed of the net assets and trade of Nuclear Consulting which formed part of the Nuclear Technology business.

The net assets and trade of a further element of Nuclear Technology, Nuclear Engineering, were disposed of on 1 October 2001 for £17.2 million. This business has been included in discontinued operations and the result on disposal will be recognised in the March 2002 Annual report and accounts.

## 12 Shareholder information

The Interim report is being sent to all shareholders in December 2001 and copies are available to the public at the Registered Office of the Company at 329 Harwell, Didcot, Oxfordshire, OX11 0QJ. The Interim report will also be made available on the Company's website. The Company's registered number is 3095862.

We offer shareholders a Dividend Reinvestment Plan (DRIP) under which shareholders can reinvest their cash dividends in ordinary shares in the Company, bought in the market at competitive dealing rates. If you have elected to join the DRIP, there is no further action for you to take.

If you would like to join for the first time, please contact our Registrars at the address below. Completed forms returned to the Registrars by 11 January 2002 will apply to the interim dividend payable on 1 February 2002.

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 6DA  
Telephone 0870 600 3970

# Financial calendar

## Year End

31 March 2002

## Dividend

Interim – payable 1 February 2002

Final – payable 1 October 2002

## Results

Interim – announcement 12 December 2001

Full year – preliminary results announcement June 2002

Report and accounts – circulation June 2002

Annual General Meeting – 25 July 2002

The latest financial information on AEA Technology is available on the internet:  
[www.aeat.co.uk](http://www.aeat.co.uk)

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